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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Regulatory Reform for	)	
Local Exchange Carriers	)	CC Docket No. 92-135
Subject to Rate of Return	)	
Regulation	)	

REPLY COMMENTS OF THE
UNITED STATES TELEPHONE ASSOCIATION

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TABLE OF CONTENTS

SUMMARY

Most parties filing comments in this proceeding agree with USTA's positions on the relevant issues. Of particular importance, the commenting parties unanimously support USTA's view that optional incentive regulation should be available to LECs that depool their traffic sensitive rates while remaining in the common line pool.

Only AT&T supports the Commission's proposal to allow LECs under the incentive plan to earn no more than 100 basis points above the authorized rate-of-return. AT&T's position is based on its belief that the incentive plan limits LEC risks. Contrary to AT&T's argument, however, risk is not mitigated by the requirement that LECs retarget to the authorized return at the end of two years. Instead, this requirement limits the incentive potential under the plan because all benefits of efficiency gains will ultimately flow back to access customers. Nor are LEC risks lessened by the ability to file mid-term tariff adjustments, or by the option to return to baseline regulation at the end of each two-year period.

AT&T is the only party that supports the Commission's proposed common line demand adjustment. AT&T's position is not surprising since the Commission's proposal would afford AT&T and other IXCs the full benefit of LEC common line

demand growth. Such a result, however, is inequitable and contrary to the Commission's conclusion in the price cap proceeding that both LECs and IXCs should share in the benefits of common line growth. The common line adjustment formula proposed by USTA will equitably share these benefits, while recognizing the inherent differences between price cap and optional incentive regulation.

The Commission should adopt Cincinnati Bell's suggestion and not impose any new infrastructure reporting requirements on carriers that elect optional incentive regulation. In the price cap proceeding, the Commission made infrastructure reporting applicable only to those large LECs for which price caps are mandatory. These requirements should not apply to smaller carriers.

The Commission should reject AT&T's arguments against the inclusion of "known and measurable costs" in optional incentive regulation. Contrary to AT&T's position, the use of known and measurable costs would not guarantee LECs an up-front reimbursement of prospective costs that may not materialize. This is so because only instances where there is an objective confirmation of the future event causing a cost or demand change would qualify as known and measurable.

Further, the inclusion of known and measurable changes will not result in large quantities of expense and investment information to be analyzed by the Commission and interested parties. The threshold requirement for known and measurable changes will ensure that relatively few changes will be included in tariff support materials. Moreover, the fact that LECs can make mid-term rate adjustments does not obviate the need for known and measurable changes.

The Commission must ensure that prospective ratemaking remains the primary, if not exclusive, tariff support option for LECs and the NECA pools under baseline rate-of-return regulation. While the use of historical costs might simplify the tariff filing process as AT&T contends, such simplification could threaten the continued financial viability of small LECs that must be able to reflect the high costs of future network upgrades in their tariffed rates. Reliance on historical costs or simple extrapolations would also make it difficult, if not impossible, for these carriers to provide modern and efficient telecommunications services to their subscribers.

Finally, the Commission should adopt NECA's proposal to allow cost companies to convert to average schedule status. The Commission should also ensure, as NTCA urges, that the merger and acquisition provisions of the incentive plan are consistent with the pooling status rules adopted in CC Docket 89-2.

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In the Matter of

Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation	))))	CC Docket No. 92-135

REPLY COMMENTS OF THE UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) hereby replies to the comments filed on August 28, 1992, in response to the Commission's Notice of Proposed Rulemaking (NPRM), FCC 92-258, in the above-captioned proceeding.

I. INTRODUCTION.

In its August 28 comments, USTA supported the Commission's efforts in this proceeding to achieve meaningful regulatory reform for the approximately 1,300 local exchange carriers (LECs) that remain under rate-of-return regulation. USTA expressed its concern, however, that the NPRM contained several tentative conclusions and proposals which, if adopted, would discourage LECs from electing the Commission's proposed incentive regulation plan, and could potentially harm the National Exchange Carrier Association (NECA) pools and other LECs remaining under "baseline" rate-of-return regulation. For these reasons, USTA urged the Commission to modify its proposals so that (1) optional incentive regulation could be elected by carriers that have depooled only their traffic sensitive rates; (2) optional incentive regulation would provide sufficient earnings incentives for LECs to implement the cost-saving efficiencies contemplated by the Commission; and (3) prospective cost-based tariff filings for non-price cap LECs and the NECA pools would be preserved under baseline regulation.

USTA also commented on the need for certain other changes to the Commission's proposals including, inter alia, a carrier common line demand adjustment formula that equitably shares the benefits of demand growth between LECs and interexchange carriers (IXCs), less burdensome service quality reporting requirements, modifications to the new service rule, enhancements to the incentive plan's pricing flexibility feature, and revisions to the proposed treatment of known and measurable changes. Finally, USTA supported the Commission's proposal to extend the Section 61.39 filing option to common line.

Twenty-one other parties filed comments in this proceeding. Most parties agreed with USTA's position on the issues identified above. In view of this consensus, and to avoid burdening the record, USTA will not discuss herein issues over which there is little or no controversy, with the exception of incentive plan election by LECs that have depooled only their traffic sensitive rates. As shown below, the comments of several parties underscore USTA's position that unless the Commission allows such election, few, if any, LECs will participate under optional incentive regulation.

These reply comments will focus on the comments of the American Telephone and Telegraph Company (AT&T). Specifically, USTA strongly disagrees with AT&T's suggestion that the earnings band of the optional incentive regulation plan gives LECs an adequate incentive to control costs. USTA will also demonstrate that AT&T's position concerning the common line demand adjustment lacks merit, and that there are no grounds for abandoning prospective ratemaking under baseline rate-of-return regulation. Further, the Commission should reject AT&T's arguments to exclude known and measurable changes from the incentive plan.

USTA supports several suggestions that parties made concerning issues not addressed in USTA's comments. In particular, the Commission should eliminate the infrastructure reporting requirements for LECs under optional incentive regulation as urged by Cincinnati Bell Telephone Company (Cincinnati Bell). The Commission should also adopt NECA's proposal that small cost companies be allowed to return to average schedule status. Finally, the Commission should ensure, as requested by the National Telephone Cooperative Association (NTCA), that the mergers and acquisition provisions proposed in the NPRM are consistent with the Commission's pooling status rules.

II. DISCUSSION.

A. Commenting Parties Unanimously Support USTA's Position That Optional Incentive Regulation Should Be Available to LECs That Depool Their Traffic Sensitive Rates While Remaining in the Common Line Pool.

In its comments, USTA explained why the Commission should modify its tentative proposal and permit incentive plan participation by LECs that have depooled their traffic sensitive rates, but remain in the NECA common line pool.[1] USTA provided data and information which demonstrated that few carriers would elect optional incentive regulation if required to depool both traffic sensitive and common line rates, and that LECs are not likely to depool their common line rates in order to participate under the plan.[2] Accordingly, unless the Commission's proposal is modified, the public interest benefits of optional incentive regulation will not be achieved.

[1] USTA Comments, pp. 5-11.

[2] Id. at 6-7.

Each of the eight parties commenting on this issue agree with USTA's position.[3] Several LECs lend support to USTA's analysis that exiting the common line pool is simply not an option for many carriers. As PTI points out, small and midsized LECs cannot afford to leave the common line pool and lose long term support (LTS).[4] Such a loss would cause a LEC's "stand alone" rates to increase substantially, more than negating any efficiency gains under the plan.[5] This result would be contrary to the expectations of the Commission (and also the LECs' IXC customers) that incentive regulation will decrease, not increase, the rates charged for local exchange access.

Notably, the SBA, a federal government agency, suggests that the "Commission may wish to consider revising the optional incentive plan to eliminate the requirement that

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[3] See Comments of ALLTEL Service Corporation (ALLTEL), pp. 7-8; Puerto Rico Telephone Co. (PRTC) pp. 2-4; PTI Communications (PTI), pp. 3-4; John Staurulakis, Inc. (JSI), p. 9; Independent Telephone Access Group (ITAG), p. 7; GVNW, Inc./Management (GVNW), p. 4; Tallon, Cheeseman and Associates, Inc. (Tallon), p. 8; Small Business Administration (SBA), p. 10.

[4] PTI Comments, p. 4; see PRTC Comments, p. 3; ALLTEL Comments, p. 7.

[5] See PTI Comments, p. 4. ALLTEL states that the potential for reflecting efficiency gains in non-traffic sensitive rates is "severely limited," while allowing participation under the plan for traffic sensitive rates only could result in "significant reductions in access charges for ALLTEL's access customers." ALLTEL Comments, pp. 7-8.

LECs must exit both pools."[6] As USTA argued in its comments, the SBA "believes that most carriers will not take the risk associated with leaving the common line pool and this will unduly limit the number of carriers willing to select incentive regulation."[7]

In sum, USTA's comments presented persuasive evidence as to why the public interest would not be served by requiring LECs to depool all of their traffic sensitive and common line rates (except for average schedule study areas) before they could participate under optional incentive regulation. USTA's position finds considerable support in the comments of other parties. For these reasons, the Commission should allow carriers to elect the incentive plan for their depooled traffic sensitive rates alone while remaining pooled for common line.

B. The Comments Support an Upper Earnings Limit of at Least 200 Basis Points Above the Authorized Rate-of-Return.

In its comments, USTA argued against the Commission's proposal to allow LECs under the incentive plan to earn no more than 100 basis points above the authorized rate-of-return, while subjecting LECs to a loss of up to 100 basis

[6] SBA Comments, p. 10.

[7] Id.

points below the authorized level.[8] As USTA explained, the earnings limitation was inadequate in view of the substantial risks to LECs participating under optional incentive regulation, and the already limited rewards of a plan that required a LEC to retarget back to the authorized rate-of-return every two years.[9] For these reasons, and to ensure that LECs have sufficient incentive to undertake the productivity improvements contemplated by the Commission, USTA recommended that carriers be permitted to earn up to 200 basis points above the authorized level.[10]

Of the parties commenting on the earnings issue, only AT&T supports the Commission's proposal.[11] AT&T states that the "proposed earnings band and the requirements that tariffs remain in effect for two years give LECs the incentive to control costs, because cost increases would lessen their earnings."[12] AT&T fails to recognize, however, the substantial risks to LECs under the incentive plan. Instead, AT&T argues that the plan limits LEC risks because "access rates would be retargeted biennially to the

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[8] USTA Comments, p. 12.

[9] Id. at 12-13.

[10] Id. at 15-16.

[11] AT&T Comments, p. 3.

[12] Id.

LECs' authorized rate of return, mid-term adjustments to the lower earnings band would be permitted, and LECs would retain the option to revert to traditional rate of return regulation."[13]

AT&T's arguments are misplaced. The requirement that LECs retarget to the authorized return at the end of two years does not limit a LEC's risks. Instead, it limits the carrier's incentive potential because all the benefits of efficiency gains, other cost savings and market stimulation that the LEC achieves under the incentive plan will ultimately flow back to the access customer.[14] Further, the mid-term adjustments referenced by AT&T will do little to limit a LEC's risks because such adjustments would increase rates only to the lower earnings band and the LEC must meet a "heavy burden" to justify any rate increase.[15] Additionally, while a LEC will have the option to return to baseline regulation, this feature does not mitigate the risk that a LEC might not reach its authorized rate-of-return if its costs increase during the plan period faster than demand

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[13] Id. at 4.

[14] USTA Comments, pp. 13-14; see Cincinnati Bell Comments, p. 6; PRTC Comments, p. 6; ITAG Comments, p. 7.

[15] NPRM, ¶ 10. See USTA Comments, pp. 21-22; Cincinnati Bell Comments, p. 13; PRTC Comments, p. 8; JSI Comments, pp. 3-4; GVNW Comments, p. 2; SBA Comments p. 11.

for its services.[16] As USTA pointed out, the likelihood that a LEC's costs will grow faster than demand, and the LEC will not reach its authorized return level, will increase under optional incentive regulation in each successive two-year period that a carrier participates under the plan.[17]

In contrast to AT&T, other parties echo USTA's concern over the inadequacy of the 100 basis point upper earnings limit. As ITAG sums-up, the "opportunity to earn a mere 75 basis points over the existing rate of return, including the 25 basis point buffer zone, with full refund for earnings above that level, when combined with the risks confronting small and mid-sized LECs, does not provide a sufficient economic incentive to elect [the incentive] plan."[18] For

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[16] See USTA Comments, pp. 12-13; PRTC Comments, p. 7 (The "combined effect of cost and demand changes during the tariff period [c]ould cause a carrier's earnings to fall below the lower band rate of return. Generally, this condition would be caused by a rate of increase in costs that is higher than the rate of increase in demand.")

[17] USTA Comments, pp. 12-13. The National Association of Regulatory Utility Commissioners (NARUC) suggests that LEC costs have been decreasing "and are likely to continue to do so . . . ." NARUC Comments, Appendix A, p. 8. This may be true for price cap companies. For smaller non-price cap LECs, however, the empirical evidence submitted with USTA's comments shows significant increases in the growth of unseparated loop costs. See USTA Comments, Attachment 1. Even AT&T recognizes that while the access rates on the larger price cap LECs have "tended to stabilize or go down," the cost-based "rates charged by smaller, non-price cap LECs have tended to increase." AT&T Comments, p. 2, n. 2.

[18] ITAG Comments, p. 6.

this reason, ITAG and others urge the Commission to expand the plan's upper earnings limit to 200 basis points above the authorized rate-of-return between the retargetting periods.[19] Without this change, small and midsize telephone companies will have little reason to elect the plan and the potential benefits of optional incentive regulation will not be realized for the non-price cap LECs.[20]

C. The Common Line Demand Adjustment Must Equitably Share the Benefits of Common Line Growth Between LECs and Their IXC Customers.

USTA's comments noted that the common line demand adjustment, proposed by the Commission for both optional incentive regulation and the extension of the Section 61.39 filing option, would result in ascribing the full benefit of growth in common line demand to the LECs' IXC customers and

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[19] Id.; see PRTC Comments, pp. 6-7; Lincoln Comments, p. 5; Centel Comments, p. 5; Cincinnati Bell Comments, p. 6; JSI Comments, p. 5; ALLTEL Comments, pp. 4-5.

[20] MCI Telecommunications Corporation (MCI) offers a version of its time-worn argument against the Universal Service Fund (USF). MCI Comments, pp. 2-3. Contrary to MCI's assertion (p.3), the USF is not "out of control". Accordingly, the Commission should reject, as it has done before, MCI's request to cap USF payments. See National Exchange Carrier Association Revisions to Tariff F.C.C. No. 5 Universal Service Fund and Life Line Assistance Rates, DA 91-1599, released December 31, 1991 (Deputy Chief (Policy), Common Carrier Bureau). (FCC rejects MCI argument that USF revenue growth be capped at not more than 10 percent above the reported percent increase in loop growth.)

none to the LECs themselves.[21] For this reason, USTA proposed a common line demand adjustment formula that would equitably share the benefits of demand growth between LECs and their customers, while recognizing necessary differences between the formula used under the price cap plan for larger LECs, and a demand adjustment formula appropriate for small and midsize non-price cap carriers.[22]

Other parties recognize that the Commission's proposed demand adjustment procedure is unreasonable. As Cincinnati Bell states, the Commission's "method would . . . attribute the entire benefit of historical growth to the LEC's customers, and none to the LEC. This stands in sharp contrast to the approach established for price cap LECs."[23]

Not surprisingly, AT&T is the only party that believes the Commission's proposal to be "sound."[24] Of course, AT&T and other IXCs will receive the full benefit of common line demand growth under the Commission's proposal. This result is not only inequitable, it is contrary to the Commission's

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[21] USTA Comments, p. 27.

[22] Id. at 28-29.

[23] Cincinnati Bell Comments, p. 7; see PRTC Comments, Appendix; ITAG Comments, p. 8 ("We believe that the Commission's proposed growth adjustment for common line inappropriately assigns all the benefits of demand growth to IXCs and none to the LECs.")

[24] AT&T Comments, p. 8.

finding in the price cap proceeding that LECs have opportunities to increase common line productivity and "should be given a fair incentive to do so."[25] In that proceeding, the Commission concluded that "future [common line productivity] growth can be maximized only if both [LECs and IXCs] are encouraged to search out ways to become productive, and both are rewarded for their success."[26] For this reason, the FCC prescribed a common line adjustment formula for price cap LECs that struck "the best balance" between attributing the benefits of common line growth to LEC productivity initiatives, on the one hand, and IXC efforts, on the other.[27]

The common line demand adjustment under optional incentive regulation, and under the Section 61.39 filing option, should provide small and midsize LECs with at least as much incentive to increase common line productivity as afforded by the price cap plan for larger carriers. The Commission can accomplish this result, while recognizing the inherent differences between price cap and optional

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[25] Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, 5 FCC Rcd 6786, 6794 (1990) (Second Report and Order) modified on recon., 6 FCC Rcd 2637 (1991), petitions for further recon. dismissed, 6 FCC Rcd 7482 (1991).

[26] Second Report and Order, 5 FCC Rcd at 6795.

[27] Id.

incentive regulation, by adopting the common line demand adjustment formula proposed by USTA.

D. The Commission Should Not Adopt New Infrastructure Reporting Requirements for LECs Under Optional Incentive Regulation.

The NPRM proposed that all carriers electing optional incentive regulation should file the same quarterly service quality reports required of price cap carriers.[28] The NPRM also proposed that incentive plan LECs file the same annual infrastructure reports required of mandatory price cap LECs.[29]

In addition to modifying the service quality reporting requirements as urged by USTA,[30] so that they are less burdensome for small and midsize LECs, the Commission should adopt Cincinnati Bell's suggestion and eliminate the infrastructure reporting requirement for carriers that elect optional incentive regulation.[31] As Cincinnati Bell points

[28] NPRM, ¶ 21.

[29] Id.

[30] USTA Comments, pp. 23-24; see also SBA Comments, pp. 13-14; Lincoln Comments, p. 8; ITAG Comments, p. 7; JSI Comments, pp. 8-9; GVNW Comments, p. 4.

[31] Cincinnati Bell Comments, pp. 14-15. USTA encourages the Commission to consider other suggestions for eliminating excessive regulatory burdens on small and midsize carriers. See Lincoln Comments, pp. 2-3.

out, and as the NPRM recognizes,[32] the infrastructure reporting requirements are applicable only to those large LECs for which price caps are mandatory.[33] These requirements should not apply to smaller carriers.

In the price cap proceeding, the Commission stated that it was less concerned with collecting infrastructure data from smaller price cap LECs, because "infrastructure monitoring of the largest eight LECs will provide a good indication of the general state of the infrastructure nationwide."[34] The Commission was "also reluctant to create reporting requirements that might be more burdensome for smaller carriers, and might preclude their participation in price cap regulation."[35] The Commission's rationale for not requiring infrastructure reports from LECs who voluntarily participate under price caps, is no less applicable to the small and midsize carriers that elect optional incentive regulation. Accordingly, to avoid placing unnecessary burdens on these carriers and to ensure the widest participation under the incentive plan, the

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[32] NPRM, ¶ 21.

[33] See Second Report and Order, 5 FCC Rcd at 6829.

[34] Id. at n. 479.

[35] Id.

Commission should not adopt new infrastructure reporting requirements.

E. Known and Measurable Changes are a Necessary Component of Optional Incentive Regulation.

Alone among the commenting parties, AT&T argues that "known and measurable costs" should not be part of optional incentive regulation.[36] According to AT&T, the inclusion of known and measurable costs "would, in effect, guarantee the carriers an up-front reimbursement of potential, prospective costs that may or may not actually materialize during the two-year tariff period . . . ."[37] AT&T also alleges that the known and measurable proposal would "complicate the implementation of tariffs" because LECs would "submit -- and interested parties and the Commission analyze -- large quantities of expense and investment information."[38] Finally, AT&T argues that known and measurable costs are unnecessary under the incentive plan in light of the Commission's proposal "to permit mid-term rate

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[36] AT&T Comments, pp. 4-6.

[37] Id. at 4.

[38] Id. at 4-5. AT&T also suggests that "there would need to be some form of post-period audit to determine whether [the known and measurable] changes actually occurred, at what magnitude, and whether access customers are entitled to refunds of excessive rates that were predicted on unrealized costs." Id. at 5.

corrections for . . . LECs who demonstrate that actually realized changes in costs have caused their earnings to fall below the lower earnings band."[39] As shown below, AT&T's arguments are without merit.

First, under the definition of "known and measurable changes" as proposed by USTA,[40] only instances where there is an objective confirmation of the future event causing the cost or demand change would qualify as known and measurable. For example, if a LEC wanted to (or had to) include Signalling System #7 implementation costs in its base period data, the LEC would need a signed contract or other firm documentation evidencing the planned installation of Signalling System #7 capability along with the precise costs involved. (Of course, the LEC would have to meet the other conditions applicable to known and measurable changes.) Such costs would <u>not</u> qualify for known and measurable treatment merely because the LEC had included the costs in its next year's budget. Accordingly, in view of the high confidence level required of changes considered to be "known and measurable," AT&T's concern that the costs "may not

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[39] AT&T Comments, p. 5.

[40] <u>See</u> USTA Comments, p. 15, n. 37.

actually materialize during the two-year tariff period" is unfounded.[41]

Second, there will not be "large quantities of expense and investment information" that must be analyzed by the Commission and interested parties. Known and measurable changes would be allowed only if the LEC's rates absent the changes would result in a shortfall of at least 100 basis points below the authorized rate-of-return.[42] This threshold requirement should exclude all but the largest aggregate known and measurable changes from consideration. Combined with the requirement that there must be an objective confirmation of a known and measurable change, the 100 basis point threshold will ensure that relatively few known and measurable changes will be included in tariff support materials.

Finally, the fact that LECs can make mid-term rate adjustments does not obviate the need for known and measurable changes, particularly under the Commission's proposal which would require a LEC to meet a "heavy burden"

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[41] In the highly unlikely event that a known and measurable change does not occur, the LEC would make a mid-course correction to fully account for such non-occurrence.

[42] NPRM, ¶ 14.

of proving that its current rates are unreasonable.[43] This test is no substitute for inclusion of cost and demand changes that are highly certain to occur. Further, mid-course adjustments would be prospective only. The LEC would have no way of recovering the known and measurable changes that occur prior to the mid-course correction.

F. Fully Prospective Ratemaking Must Be Available for Baseline LECs and the NECA Pools.

Along with USTA, most commenting parties took exception to the Commission's proposal to rely on "simple extrapolations of historical cost and demand" or, for certain rate elements, on only historical costs,[44] in developing cost support for baseline carriers and the NECA pools.[45] Like USTA, these parties urge the Commission to retain prospective ratemaking for baseline LECs and the NECA pools. Only AT&T argues for the use of historical cost and demand data for baseline tariff support.[46] Again, AT&T's argument should be rejected.

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[43] NPRM, ¶ 10. USTA and other parties have argued that the "heavy burden" requirement is unjustified. See, e.g., USTA Comments, pp. 21-22; Cincinnati Bell Comments, p. 13; PRTC Comments, pp. 7-8.

[44] NPRM, ¶ 44.

[45] See, e.g., USTA Comments, pp. 30-33; Centel Comments, p. 11; Lincoln Comments, pp. 8-9; NECA Comments, pp. 5-9; SBA Comments, pp. 21-22.

[46] AT&T Comments, p. 9.

AT&T's position is based on its view that the use of historical costs "will reduce the filing burdens of small and mid-size rate-of-return LECs and will simplify the overall tariff filing process."[47] This statement may be true, but AT&T's argument ignores the substantial cost of achieving this simplification. As the SBA states, "[t]he FCC, in its effort to ease the burdens associated with tariff filings, may make it impossible for small companies to provide new equipment or service to new customers if that requires cost deviation higher than the historic norm."[48] Similarly, NECA notes that "projections based solely on historical trends ignore recognition of future network upgrades and result in an understatement of test period costs."[49] This, "coupled with an overstatement of access demand, results in severe underearnings for companies participating in the NECA pools."[50]

USTA submits that whatever the virtues of simplified tariff filing requirements, and there are several, they are

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[47] Id.

[48] SBA Comments, p. 21.

[49] NECA Comments, p. 5; see also ITAG Comments, p. 10 ("Simple extrapolations of historical costs or reliance on historical costs is unlikely to produce rates reflective of future costs in the current telecommunications environment.")

[50] NECA Comments, p. 5.

of far less importance than the need to preserve the financial viability of small telephone companies and to ensure that these LECs will be able to provide modern and efficient telecommunications services to their subscribers. In short, while tariff simplification is a laudable goal, this objective can be accomplished in ways that do not threaten the financial health and vitality of the nation's small telephone companies.[51]

Several parties suggest that LECs and the NECA pools be given the option to use historical cost support in filing tariffs under baseline regulation.[52] USTA has no objection to these proposals so long as fully prospective baseline tariff filings remain one of the options.

G. USTA Supports NECA's Proposal to Allow Small Cost Companies to Convert to Average Schedules.

In its comments, NECA proposes that LECs with fewer than 10,000 access lines that currently settle on a cost basis be allowed to convert to average schedule status.[53] USTA supports NECA's request. As NECA points

[51] See USTA Comments, pp. 30-31; NECA Comments, pp. 8-9.

[52] See, e.g., SBA Comments, p.21; JSI Comments, pp. 13-14.

[53] NECA Comments, pp. 19-20. NTCA states that "the Commission should allow NECA to develop a rule which prescribes the conditions under which pooling LECs can
(continued...)